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Cottage Industry Clusters in India in improving rural livelihood: An Overview

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Abstract

Cottage industry has a long and traditional history in India. A number of crafts had been developing since then. In true sense, Indian villages were self sufficient where an amalgamation of versatile cottage industries were evident resulting availability of almost all products of domestic requirement in the particular village itself. The inception of British rule has done a lot of harm to the concept of cottage industry in rural India. Mahatma Gandhi presented khadi as a symbol of nationalism, equality and self-reliance. His emphasis at first was on khadi as providing relief to our poverty- stricken masses. But one finds a change in his emphasis from 1934, more especially from 1935, when he began on insisting on khadi for the villager's own use, rather than merely for sale to othersⁱ. Even after almost seven decades of independence the cottage industry in rural India is still to gather the required momentum. Ministry of Micro, Small & Medium enterprises has evolved during the last decade as a pivotal institution in the country to patron the entrepreneurs-both individuals and clusters to move ahead with their trade. The relatively new concept of cottage industry clusters formed by the Government's patronage is pouring into the rural India. Newer schemes (viz. MSME) to enhance the productivity of rural cluster of artisan in the view of modernizing the approach and subsequent effect in the livelihood in India is the theme of this article.

Keywords: Cottage industry, MSME, MSE-CDP, SME, Cluster approach

Introduction: The Aryan civilization (1500 B.C.) was basically village based civilization. In villages then, there was enough proliferation of cottage industries for the consumption of rural households. Even after that cottage industries kept developing till the emergence of the British. Even during the colonial period, it was the belief of Mahatma Gandhi that reconstruction of the society and effective Satyagraha against the foreign rule can be possible only through khadi. Gandhiji started his movement for khadi in 1918. In India, Micro and Small Enterprises – Cluster Development Programme (MSE-CDP) has been an important initiative for upliftment of industrial sector. Micro, Small and Medium Enterprises (MSME), since its inception, has been gathering steady momentum. Earlier, the Cottage & Small Industries Department was a narrow shelter to incorporate all the rural artisans. But after the advent of MSME the scenario has changed to certain extent; more and more rural artisans, both individuals and clusters, are opting to come under this umbrella. In this study, we will try to find out the extent of change that has been poured into by MSME in the lives of rural clusters in the state of West Bengal. The MSME scheme is also persistent for the individual manufacturers and service providers in the country.

Apart from cluster & individual approach, Ministry of Micro, Small and Medium Enterprises consists Khadi & Village Industries Commission for development of khadi products in the country and Coir Board for augmentation of fiber made products in order to make the country ecologically more clean and fresh for the people of this country.

Just after Indian independence, cottage & small industries were striving for life after being neglected during the British Periodⁱⁱ. Mere livelihood maintenance became a tough job. Initially, governments of independent India did not focus on small scale industries. In the first five year plan (1951-56) the establishment of new centers of small industrial production townships for providing valley products, training, research and development, arrangement of finance were the various aspects which were stressed. A network of various all India boards such as, the Khadi and Village Industries Board, the Handloom Board and the Agriculture Board were established. Four regional small industrial service units were set-up to provide technical assistance to these industrial units.ⁱⁱⁱ The First Plan was not a comprehensive one and it was a rehabilitation plan to bring up the Indian economy which was ravaged by the partition of the country and the consequent refugee influx, the shortages that existed in the economy and to make up a sound base for the more rapid advance in future. Hence, the plan tried to lay the foundation for the improvement of the small industrial units. The total outlay for the small industrial units was Rs.5.2 crore during the First Plan period. During Second five year plan (1957-62) heavy industry got the premier prerogative in order to develop manufacturing sector. But cottage industry didn't receive the forefront for quite a long period of time^{iv}.

Micro, Small and Medium Enterprises: There exist several definitions of the term small and medium enterprises (SMEs), varying from country to country and varying between the sources reporting SME statistics. The commonly used criteria at the international level to define SMEs are the number of employees, total net assets, sales and investment level. If employment is the criterion to define, then there exists variation in defining the upper and lower size limit of a SME.

The European Union makes a general distinction between self-employment, micro, small and medium sized businesses based on the following criteria^v:

Number of employees

0	Self-employed
2-9	Micro business
10-49	Small business
50-249	Medium-size business

Source: Annual Report, 2008-09. Ministry of Micro, Small and Medium Enterprises, www.msme.gov.in

In the Indian context, micro, small and medium enterprises as per the MSME Development Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipments for enterprises providing or rendering services.

According to the Micro, Small and Medium Enterprises (MSME) Development Act of 2006, (India)

1. A micro enterprise is where the investment in plant and machinery (for manufacturing enterprise) does not exceed twenty five lakh rupees.
2. A small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees.

3. A medium enterprise is where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees.

In the case of the enterprises engaged in providing or rendering of services, as

1. A micro enterprise is where the investment in equipment does not exceed ten lakh rupees.
2. A small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees
3. A medium enterprise is where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

According to the Ministry of Micro, Small and Medium Enterprises, recent ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows^{vi}:

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Upto Rs. 25 lakh	Upto Rs. 10 lakh
Small	Rs. 25 lakh to Rs. 5 crore	Rs. 10 lakh to Rs. 2 crore
Medium	Rs. 5 crore to Rs. 10 crore	Rs. 2 crore to Rs. 5 crore

* Investment limit in Plant & Machinery

** Investment limit in equipments

Source: Annual Report, 2008-09. Ministry of Micro, Small and Medium Enterprises, www.msme.gov.in

Defining Clusters: A cluster is a geographical concentration of micro, small, medium and large firms producing the same or a similar range of products (goods or services). Units in a cluster face same or similar set of threats (e.g. product obsolescence or lack of markets) and opportunities (e.g. increasing turnover through quality up-gradation or the introduction of new products, and increasing exports through targeted marketing). The firms producing ‘the product’ by which a cluster is known are called principal firms or principal stakeholders of the cluster. The number of principal stakeholders vary and can be as low as 50 (in hilly areas) to as high as 5000 in locally dense clusters^{vii}.

Generally the cluster concept suggests a change in the units of analysis from isolated firms to a network of firms, which have an advantage of effective local knowledge up gradation, skill development, empowerment of local community, caste people and innovation etc.

The geographic spread of a cluster can vary. As a part of its natural growth, a cluster generally covers at least that big an area that enables its firms to interact. However, since cluster is not a legal entity, its geographic boundary is scholastically determined. Ideally, the geographic limit of a cluster should not cover too large area such that it deters interaction and the very spirit of cluster development may lack in such situations. Thus a cluster should cover a few villages or a city and its surrounding areas or at best a few blocks of a district.

Cluster approach in industry: Background: The industrial cluster is not a new phenomenon. It has evolved after passing through a numbers of economic theory developed starting from Marshal’s Industrial District Theory (1890)^{viii} to Industrial Cluster Theory by Michael Porter (1990)^{ix}. The cluster concept has attracted many policy maker, academicians and researchers as a vital strategy for rural development (economic and industrial). Today, the developed and developing economy implementing cluster concept as an instrument for the development of rural

small and households industries and also for the development of communities related to these industries.

The cluster concept has gained momentum on the agenda of international development organizations over last decade. The foundations of this paradigm can be traced back to the work of the economist Alfred Marshall, who in *Principles of Economics* (1890) described the phenomenon as “the concentration of specialized industries in particular localities” and noted that these agglomerations of small-scale businesses enjoyed economies of scale comparable to those of large firms. In the late 1970s, the concept was highlighted again as a new model of industrial organization after the relative decline of Fordist mass production. More recently, Michael Porter popularized the concept of industry clusters in his book *The Competitive Advantage of Nations* (1990). Thereafter, there has been a surge of interest in clusters as drivers of economic growth and hubs of innovation^x.

A cluster having only micro enterprises are called micro enterprise cluster. Those micro enterprise clusters, which produce handicrafts and handlooms products, are called artisan clusters^{xi}.

However, the advent of MSME in 2006 has brought few new arrivals for the rural artisans. The rural artisans who work under the MSME scheme have been enabled with different kind of amenities, broadly classified into two types- hard intervention and soft intervention. Earlier they were desperate, in many cases, for ensuring the survival of their trade. Not to mention their hand to mouth daily lives were starving for food. Now, with the advent of the intervention carried out at the government level, the artisans are even aspiring for advancement of their trade itself.

Table: Distribution of Clusters in India by Regions

Region	Traditional Manufacturing		Micro Enterprise					
			Handicraft		Handloom		Others	
	No.	%	No.	%	No.	%	No.	%
North	123	31.7	716	25.75	140	23.56	698	24.11
East	36	9.28	645	23.19	43	7.24	464	16.02
West	140	36.09	764	27.47	134	22.57	787	27.17
South	89	22.95	502	18.05	214	36.02	858	29.62
North-East	0	0	153	5.51	63	10.61	89	3.08
Total	388	100	2780	100	594	100	2896	100

Source: *Policy and Status Paper on Cluster Development in India*, Foundation for MSME Clusters, 2007

It is clearly evident that the initiation process of MSME runs Clusters throughout the country just accelerated after the inception of MSMED Act, 2006. Mainly the existing clusters were identified throughout the country and provided assistance like skill development (i.e. soft intervention) of building common facility centre (i.e. hard intervention). An estimated 6270 Micro Enterprises including Handicraft, Handloom and others throughout India were taken under consideration for development. The northern part of India shows uniform presence of Handicraft (25.75% of total in India), handloom (23.56% of total in India) and traditional manufacturing clusters (31.7% of total in India). The western part of India shows maximum proliferation of clusters in the country, i.e. Handicraft (27.47% of total in India), handloom (22.57% of total in India) and traditional manufacturing clusters (36.09% of total in India). The southern part of India cites maximum existence of handloom cluster (36.02% of total in India). But the eastern part of India shows relatively less proliferation of clusters in the country, i.e. average performance in case of Handicraft (23.19% of total in India) and quite miserable figures in case

of handloom (7.24% of total in India) and traditional manufacturing clusters (9.28% of total in India). And the real cause of concern is north-eastern part of India where the presence of traditional manufacturing clusters is basically non-existent whereas the meager occurrence of Handicraft (5.51% of total in India) and handloom (10.61% of total in India) certainly needs to be developed for uniform growth of the country. There is enough reason from these results to come to the conclusion that the developing picture was very much because of the introduction of MSME scheme.

FIG. No.1, 2, 3 showing Number of MSMEs, Employment & Production in India



Source: MSME Annual Report 2011-12, Ministry of Micro Small & Medium Enterprises, Govt. of India

The trend shows continuous and steady progress of MSMEs as far as employment generation, production is concerned; apart from the fact that the number of MSMEs has gained almost 19.30% growth rate from the financial year 2006-07 to the financial year 2010-11. Most importantly, generation of employment has been quite impressive, i.e. it has engaged 595.66 lakh people during 2006-07 and engaged an increased figure of 732.17 lakh people during 2010-11.

Industry Group-Wise Distribution Number (i.e. the frequency distribution of different Micro, Small & Medium Enterprises engaged in different trades active in India) of Entrepreneurs Memorandum (EM-II) Filed by Micro, Small and Medium Enterprises (At 2-Digit Level of NIC-2004) 2007-08 to 2011-12 shows regular increase of number of MSMEs except for the period from 2010-11 to 2011-12, as follows:

Year	2007-08	2008-09	2009-10	2010-11	2011-12
Number	103779	115209	133250	167667	140210

Source: Computed data from Annexure IV (E), MSME Annual Report 2012-13, Ministry of Micro Small & Medium Enterprises, Govt. of India

Possible Merits of Cluster Approach: The biggest advantage of the cluster approach is that the group of people is having common prospect or problem; hence they can unanimously decide and come to a solution. The unanimity makes it easier to handle a common obstacle for the artisans. From raw materials to energy and from production to marketing similar opportunity and threat is observed by the cluster-members. Also from government’s point of view it becomes easier to extend support to maximum beneficiaries who are already under a single umbrella. To create Common Facility Centre (CFC) or to facilitate marketing support becomes much more pragmatic just because the total number of beneficiaries remains under constant observation under MSME scheme. Providing not only technological support, but also making them psychologically equipped for further struggle to conquer success becomes equally important for the trainers.

Possible Problems with MSME clusters: Despite all the support that has been provided to the MSME artisans the main problem remains the competition with the technologically upgraded industry who produce better finished goods and more importantly cheaper in price. Secondly, availability of raw materials becomes throughout the year becomes difficult at times for the rural

artisans. Thirdly, the marketability of the finished products of rural clusters becomes hampered very often. Fourthly, the mindsets of these rural artisans are not as professional in most cases. Finally, most of the clusters are comprised with marginalized artisans who live their life from hand to mouth. So it becomes very difficult to upgrade their livelihood. It becomes a time taking process to lead them to a decent lifestyle.

Conclusion: Despite of having legendary excellence in cottage and small scale industry Indian cottage and small scale industry is yet to become a persuasive tool for development of the rural poor. They are much more underprivileged than the urban till today; thanks to unequal developmental approach taken by the British rulers and not to forget the destruction of rural enterprises for the sale of European produces during the colonial period. Those two centuries of British dynasty have created so many lesions that even seven decades of post independence healing has not proved to be sufficient. The forgotten trend of cottage industries being self dependent may return again but a lot of effort needs to be put into it to make it possible. MSME is just one of the tools that can strengthen the root of cottage industries in India with its cluster or collective approach. The cumulative efforts of the small artisans may bring about large outcomes; moreover, common goals can be achieved by joining hands together. Obstacles may be minimized due to joint efforts and enhanced profitability becomes quite a possibility on the other hand. This way of bringing upliftment of livelihood of rural artisans not only helping the almost forgotten rural trades to revive but also assisting to build bondage among the same trade operators in rural India. And future will answer, of course, many more questions about the exact role that is being played by this scheme for development of rural artisans.

ⁱ M.K. Gandhi, *Khadi: Why and How*, ed. Bharatan Kumarappa, Navajivan Publishing House, Ahmedabad, 1955, Editor's note, p.v.

ⁱⁱ Bhattacharyya, Amit (2008), *Swadeshi Enterprise in Bengal: The First Phase 1880-1920*; Readers Service, Kolkata.

ⁱⁱⁱ Behari, Bipin (1976), *Rural Industrialization in India*; Vikas Publishing House Pvt. Ltd.

^{iv} Suri, K. B. (1988): *Small Scale Enterprises in Industrial Development: The Indian Experience*, Sage Publications, New Delhi.

^v *Effective Policies for Small Business: A Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development (2004)*, UNIDO and OECD, http://www.unido.org/fileadmin/user_media/Publications/Pub_free/Effective_policies_for_small_business.pdf

^{vi} *Annual Report, 2008-09. Ministry of Micro, Small and Medium Enterprises*, www.msme.gov.in

^{vii} Sarkar, Tamal & Banerjee, Sukanya (2007): *Artisan Clusters – Some Policy Suggestions* The Innovation Journal: The Public Sector Innovation Journal, Volume 12(2), 2007, article 8.

^{viii} Marshall, Alfred; *Principles of Economics* (1890) [Book 4, Chapter 10]

^{ix} Porter, Michael E.; *Economic Development Quarterly*, Feb2000, Vol. 14 Issue 1, p15, (*Website: home.furb.br/wilhelm/COMPETIV/Porter_Cluster3.doc*)

^x *Cluster development for pro-poor growth: the UNIDO approach*; UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION, Vienna, 2010, http://www.unido.org/fileadmin/user_media/Publications/Pub_free/Cluster_development_for_pro_poor_growth.pdf

^{xi} Sarkar, Tamal (2009): *Cluster and Cluster Development*, YOJANA November 2009, Page-9.